

Message Text

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PAGE 01 LONDON 05485 01 OF 02 031244Z

43

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 L-03 H-03 SS-20 NSC-07 FEA-02 INT-08 DRC-01

/178 W

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P R 031233Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 0036

INFO AMEMBASSY BRUSSELS

AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 05485

DEPARTMENT PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: DIRECT INVESTMENT ISSUES IN THE OECD

REF A) STATE 89852 B) LONDON 5407

SUMMARY: MR. FLANIGAN WILL PROBABLY RECEIVE A GENERALLY
SYMPATHETIC HEARING. U.K. IN REPLY MAY STRESS THAT
NATIONAL TREATMENT CAN INCREASINGLY INVOLVE STATE DIREC-
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PAGE 02 LONDON 05485 01 OF 02 031244Z

TION OR GUIDANCE, IF NOT STATE OWNERSHIP. END SUMMARY

1. EMBASSY BELIEVES THAT MR. FLANIGAN WILL GET A GENERALLY SYMPATHETIC HEARING FROM THE U.K. AUTHORITIES IN TERMS OF (A) CONTINUING AND STRENGTHENED OECD CONSULTATION PROCEDURES AND (B) WORKING TOWARDS CONCEPTUAL FRAMEWORK AND EFFECTIVE MECHANISM FOR CONSULTATIONS ON INTERNATIONAL EFFECTS OF GOVERNMENT POLICIES TOWARD DIRECT INVESTMENT. THE U.K. ITSELF HAS EXTENSIVE OVERSEAS DIRECT INVESTMENTS, SOME OF WHICH HAVE BEEN NATIONALIZED. IT IS SENSITIVE AND RESPONSIVE TO THESE ISSUES.

2. THE INVESTMENT CLIMATE IN THE U.K. HAS HISTORICALLY BEEN FAVORABLE TO FOREIGN COMPANIES. THEY USUALLY RECEIVE NATIONAL TREATMENT ALTHOUGH THERE ARE SOME PROVISIONS THAT THEY BRING IN THEIR OWN CAPITAL AND NOT RAISE IT LOCALLY. SOME U.K. INDUSTRIES (AS COMPUTERS) GET FAVORED TREATMENT. THIS MUCH SAID, THE U.K. AUTHORITIES HAVE TO SOME EXTENT BEEN DISTRUSTFUL OF ACTIVITIES OF MULTINATIONAL CORPORATIONS INCLUDING TRANSFER PRICING AND TAX AVOIDANCE. THIS WAS TRUE UNDER PREVIOUS GOVERNMENT ALTHOUGH ITS PUBLIC PRONOUNCEMENTS WERE GENERALLY EVEN HANDED. WE NOTE THAT U.K.'S STATEMENT ON MULTINATIONAL COMPANIES IN WORK IN OECD (CES/73.53, JUNE 1, 1973) STATED THERE WAS AMPLE EVIDENCE TO SUGGEST INCREASING INTERNATIONAL CONCERN ABOUT THE OPERATIONS OF

MULTINATIONAL COMPANIES.

3. THIS DISTRUST HAS BEEN MORE EVIDENT AND VOCAL WITH THE ADVENT OF THE LABOUR GOVERNMENT. THE LABOUR PARTY'S ELECTION MANIFESTO SPEAKS OF DETERMINATION TO INSURE THAT NORTH SEA OIL AND GAS RESOURCES ARE IN FULL PUBLIC OWNERSHIP AND THAT OPERATION OF GETTING AND DISTRIBUTING THEM IS UNDER FULL GOVERNMENT CONTROL WITH MAJORITY PUBLIC PARTICIPATION. IT SAID U.K. CANNOT ACCEPT THAT THE ALLOCATION OF AVAILABLE WORLD OUTPUT SHOULD CONTINUE TO BE MADE BY MULTINATIONAL OIL COMPANIES AND NOT BY GOVERNMENTS.

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PAGE 03 LONDON 05485 01 OF 02 031244Z

4. ANOTHER SECTION OF THE MANIFESTO STATED THAT THE LABOUR PARTY WOULD ALSO TAKE OVER PROFITABLE SECTIONS OR INDIVIDUAL FIRMS IN INDUSTRIES WHERE PUBLIC HOLDING IS ESSENTIAL INTER ALIA, TO PROTECT WORKERS AND CONSUMERS FROM THE ACTIVITIES OF IRRESPONSIBLE MULTINATIONAL COMPANIES AND TO PLAN THE NATIONAL ECONOMY IN THE NATIONAL INTEREST.

5. THE SUNDAY TIMES APRIL 28, 1974 SAID SECRETARY OF STATE FOR INDUSTRY, WEDGWOOD BENN, IS WORKING ON A PROPOSAL WHEREBY THE TOP 180 FIRMS IN THE U.K. WILL BE BROUGHT INTO A STATE OF PUBLIC ACCOUNTABILITY, COMPELLED TO DRAW UP FIVE-YEAR PLANS AND DISCUSS THEM WITH THE WORKERS AND WITH THE GOVERNMENT. THIS PLANNING AGREEMENT WOULD IN EFFECT BE A THREEPART CONTRACT IN WHICH COMPANIES, WORKERS AND GOVERNMENT ALL AGREE ON COMMON OBJECTIVES. THE 180 COMPANIES IN QUESTION ARE THOSE IN THE U.K. WITH A TURNOVER OF \$120 MILLION PER YEAR. THEY INCLUDE THE MAJOR MULTINATIONALS. ANYTHING SMACKING OF NATIONALIZATION IS HIGHLY CONTROVERSIAL, HOWEVER, AND THE GOVERNMENT WILL FEEL CONSTRAINED TO MOVE WITH GREAT CAUTION IN THIS AREA.

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PAGE 01 LONDON 05485 02 OF 02 031243Z

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LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 05485

6. WE DOUBT THAT THE U.K. OFFICIALS WITH WHOM MR. FLANIGAN WILL BE SPEAKING WILL HAVE AN IMMEDIATE UNDERSTANDING OF ALL THE NUANCES OF PARA 10 OF REFTEL A. IT WOULD PROBABLY BE USEFUL TO LEAVE SOME WRITTEN STATEMENT OF THE FINER DETAILS WITH U.K. OFFICIALS THAT COULD BE STUDIED IN MORE DETAIL AND DURING THE DISCUSSION CONCENTRATE UPON THE BROADEST AND MOST GENERAL POINTS TO BE MADE, AIMING AT ACCEPTANCE OF GENERAL PRINCIPLES AND THOSE SPECIFIC POINTS THAT THE U.S. CONSIDERS MOST IMPORTANT.

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PAGE 02 LONDON 05485 02 OF 02 031243Z

7. THE LABOUR GOVERNMENT IS MISTRUSTFUL OF MULTINATIONAL COMPANIES. AT THE SAME TIME IT DOES SEEK TO STRENGTHEN THE U.K. INDUSTRIAL SECTOR AND WANTS TO PROMOTE EXPORTS, IMPORT SUBSTITUTES, RESEARCH AND DEVELOPMENT AND SKILLED TECHNOLOGY. BELIEVE STATEMENT IN U.S. PRESENTATION THAT DIRECT INVESTMENT CAN HELP ACHIEVE THESE BENEFITS WOULD HELP CREATE MORE RECEPTIVE HEARING ON NATIONAL TREATMENT PRINCIPLE.

8. U.K. OFFICIALS WILL PROBABLY POINT OUT THAT WHEREAS FOREIGN DIRECT INVESTMENT IS WELCOME IN U.K. AND WILL CONTINUE TO BE WELCOME, IT WILL HAVE TO FIT IN TO THE NATIONAL AIMS AND ECONOMIC STRUCTURAL GOALS FAVORED BY THE LABOUR GOVERNMENT. THEY MAY BE RELUCTANT TO GIVE ANY FIRM COMMITMENTS TO U.S. AT THIS TIME ON NATIONAL TREATMENT BEYOND POSITIONS THEY HAVE ALREADY TAKEN, AND WILL STRESS THE CONSULTATIVE NATURE OF THE TALKS.

9. BELIEVE U.K. OFFICIALS WILL BE PLEASED TO HEAR STATEMENT OF U.S. INTENT TO MAINTAIN OPEN INVESTMENT SYSTEM BASED ON PRINCIPLE OF NATIONAL TREATMENT.

10. TREASURY REP WILL BRIEF H.M. TREASURY PAYMASTER DELL'S STAFF AND SENIOR CIVIL SERVANTS, DRAWING GENERALLY FROM PARA 10, REF A, INCLUDING CAPITAL MOVEMENTS CODE CONSIDERATIONS, IN ORDER TRY INSURE MEANINGFUL DISCUSSION BETWEEN MR. FLANIGAN AND MR. DELL.

ANNENBERG

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